

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

IN RE:  REVISIONS TO PURCHASED GAS ADJUSTMENT AND RESERVE MARGIN RULES [199 IAC 19.10 AND 19.16]	DOCKET NO. RMU-04-3
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**ORDER ADOPTING AMENDMENTS**

(Issued July 16, 2004)

Pursuant to the authority of Iowa Code §§ 17A.4, 476.1, 476.2, 476.4, and 476.6 (2003), the Utilities Board (Board) is adopting amendments to its purchased gas adjustment and reserve margin rules as attached hereto and incorporated herein by reference. The amendments were proposed based upon the information received in the Board's inquiry in Docket No. NOI-03-1, Review of Purchased Gas Adjustment Rules. In that inquiry, the Board received comments from participants and held a workshop to discuss proposed changes to these rules.

A "Notice of Intended Action" with the proposed amendments was published in IAB Vol. XXVI, No. 25 (6/9/04) p. 1951, as ARC 3401B. Comments concerning the proposed amendments were filed by the Consumer Advocate Division of the Department of Justice (Consumer Advocate), Interstate Power and Light Company (IPL), Aquila, Inc., d/b/a Aquila Networks (Aquila), Atmos Energy Corporation

(Atmos), and MidAmerican Energy Company (MidAmerican). An oral presentation was held on July 6, 2004.

The Board has summarized the written and oral comments below and discusses the amendments adopted and revisions based upon the comments.

**A. Subrule 19.10(1)**

This subrule contains the formula for calculating the PGA factor and a description of each of the factors that are used in the formula. The Board proposed to delete those factors that are no longer relevant and to change the definitions of others. The Board amended the formula in the subrule to reflect the proposed changes. The Board has made no additional changes to the formula and the amendments to the formula are adopted as proposed.

$$PGA = \frac{(C \times Rc) + (D \times Rd) + \cancel{(N \times Rn)} + (Z \times Rz) + Rb + E}{S} \quad \cancel{K}$$

**S and C/Rc factors (Sales, Commodity, and Commodity Rate Factors)**

The Board did not propose amendments to the definitions of the S and C factors but did add a reference to hedging costs in the definition of the Rc factor. Consumer Advocate requested that the Board specifically state that hedging costs be recovered contemporaneously with the use of the gas supply by customers in the same manner as the costs associated with storage.

The Board agrees with Consumer Advocate that the costs of hedging tools are to be recovered through the PGA contemporaneously with the use of the gas supply by customers. No revision to the proposed amendment to the definition of the Rc factor is needed and the Board will adopt the amendment as proposed.

**D/Rd factors (Demand and Demand Rate Factors)**

No comments were made concerning the proposed changes to the definition of the D/Rd factors. The Board will adopt the amendments as proposed.

**N/Rn factors (Entitlement and Entitlement Rate Factors)**

No comments were made concerning the proposed amendment to delete these factors and the amendment will be adopted.

**Z/Rz factors (Storage Service and Storage Rate Factors)**

The Board did not propose any changes to the definitions of the Z or Rz factors. MidAmerican and Consumer Advocate commented on the use by MidAmerican of the last-in-first-out (LIFO) accounting method for pricing storage costs. These comments also apply to the Rb factor and will be discussed in that section, below.

**Rb Factor (Remaining Balance Factor)**

The Board proposed an amendment to the definition of the Rb factor to allow a utility to decide whether to recover the balance over one or more months remaining in the PGA year. The Board stated that dividing the anticipated balance by 11 months, as required by the current rule, could create a situation where the balance would not be recovered because of decreasing volumes in summer months and it increases the possibility that the recovery would be from a different set of customers than those who used the gas. The proposed amendment would allow the utility to propose an appropriate recovery period. This should provide the utility with the flexibility to address any overcollection or undercollection. The utility will be required to provide an explanation of its proposed recovery period. The Board also added the phrase

"including storage" to clarify that "the anticipated PGA balance divided by the forecasted volumes" could include storage costs and volumes.

In written and oral comments MidAmerican requested clarification of whether MidAmerican would need to continue to file for waivers in order to use the LIFO accounting method for gas storage. In written and oral comments Consumer Advocate stated that it opposed MidAmerican's use of the LIFO method.

The Board proposed the amendments to the definition of the Rb factor based upon MidAmerican's use of the LIFO method for pricing storage. The Board intended the proposed amendment to remove the need for MidAmerican to request waivers based upon its use of the LIFO accounting method. The Board provided the flexibility so that MidAmerican would not be required to keep separate sets of books, since MidAmerican is required by the Internal Revenue Service to price its storage gas using the LIFO method for tax purposes. Information provided by MidAmerican indicated that the use of the LIFO method did not cause unreasonable over- or under-recoveries during the PGA year and with the adopted amendments any mismatches would be resolved through the PGA process. The Board will adopt the amendments as proposed.

**E factor (Per-unit over- or under-collection)**

The Board did not propose any changes to the definition of the E factor.

**K factor (Base cost of gas)**

No comments were received concerning the deletion of the K factor. This factor will be deleted as proposed.

The Board also proposed an amendment to the unnumbered paragraph after the K factor. No comments were received concerning this proposed amendment and it will be adopted.

**Proposed factor Uc (Uncollectibles)**

Atmos proposed a factor "Uc" be included within the PGA formula to account for gas costs written off as uncollectible. Atmos stated that when bad debt write-offs increase (as they have done over the last several years) and the gas cost portion of the bad debt write-offs exceeds the gas cost portion of bad debt expense reflected in the last general rate case, the utility is not recovering or collecting all of its gas cost. Atmos believes that since the PGA is the mechanism used to recover gas costs, the excess amount of bad debt gas costs should be included within the PGA computation.

MidAmerican supported the Atmos proposal to add a factor "Uc" for recovery of uncollectible gas costs in the PGA formula as an option for a utility. MidAmerican suggested that this factor would provide another mechanism for uncollectible cost recovery in addition to the recovery contained in distribution rates.

The Board will not adopt the revision to the PGA formula to include a factor for uncollectible gas costs. Uncollectible costs are an issue in a rate case and are not a cost of gas that should be included in the PGA. A utility is provided with recovery of a level of uncollectibles in rates and, if the amount included in rates is not appropriate, then a utility may provide evidence to support additional recovery in the next rate case. Calculation of a factor would also be problematic since many of the rates

established for the natural gas utilities are from settlements with no specified amount associated with uncollectibles.

**Paragraph 19.10(1)"a"**

The Board proposed to amend this paragraph to change the ending month for the filing of 12-month degree-day adjustments from June 30 to May 31. Atmos stated that it supported the change. Atmos stated that it did not support the continued requirement that the actual sales volumes be normalized. Atmos believes the use of normalized sales results in under-recovery of gas costs and utilities should have the option to use another method of projection that could result in a more timely and accurate gas costs recovery.

The Board does not agree with Atmos that the use of normalized sales results in under-recovery of gas costs. Atmos provided no data to support its contention. Additionally, Board rules allow for reduction of any over- or under-recovery through use of the Rb factor. The Board will adopt the amendment to paragraph 19.10(1)"a" as proposed.

In the "Notice of Intended Action" the Board inadvertently omitted the second sentence in paragraph 19.10(1)"a." The sentence will be included in the "Adopted and Filed" notice.

**Paragraph 19.10(1)"b"**

The Board proposed to amend this paragraph to allow utilities to use the lost and unaccounted for factor from the current annual IG-1 filing to reduce the amount of information filed with the Board. Atmos and MidAmerican stated that they did not support the proposed change to use lost and unaccounted for factors reflected in the

IG-1 filings. MidAmerican also supported use of a 12-month period ending May 31 as a more accurate approach.

The Board will adopt the revisions proposed by MidAmerican and also include the option to use the IG-1. This should allow the maximum flexibility for development of the lost and unaccounted factor. The adopted amendment will read as follows:

b. The annual expected lost and unaccounted for factors shall be calculated by determining the actual difference between sales and ~~purchases~~ purchase volumes for the prior ~~PGA year~~ 12 month period ending May 31 or from the current annual IG-1 filing, but in no case will this factor be less than 0.

**Paragraph 19.10(1)"c"**

No comments were received concerning the proposed amendment to this paragraph. The Board will adopt the amendment as proposed.

**Paragraph 19.10(1)"d"**

No changes were proposed to this paragraph.

**B. Subrule 19.10(2)**

The Board proposed to amend subrule 19.10(2) to remove the specific references to items that can be included in the annual PGA filing and add the requirement that the utility provide an explanation of the calculations for each factor. In addition, the Board proposed to require utilities to provide specific information concerning hedging tools used by the utility.

MidAmerican suggested that the detailed information concerning hedging transactions should be filed at the time of the reconciliation filing (October 1) rather than at the time of the annual filing (August 1). The list of information required to

support hedging tools should then be moved to subrule 19.10(7). Aquila made a similar comment.

The Board agrees that the information concerning hedging tools should be filed in the annual reconciliation filing and will make the appropriate revision to this subrule and subrule 19.10(7). The Board will adopt the amendments as revised.

**C. Subrule 19.10(3)**

The Board proposed to amend this subrule to remove the references to pipeline purchases and entitlements that are outdated, reference to the N and Rn factors, and the distinction between PGA changes greater than 0.5 cents and less than 0.5 cents.

Consumer Advocate suggested that there may be situations where adjusting S or C factors would provide for a more accurate PGA and requested that adjustments for good cause be allowed in periodic filings to the S or C factors. Atmos made a similar suggestion.

The Board will not adopt the suggested revision. The S and C factors are set during the annual filing and then used throughout the PGA year. Adjusting these factors in periodic filings would unnecessarily complicate and potentially distort the periodic filings. If a need arises where a utility believes that the S or C factor should be adjusted, the utility may file for a waiver of the requirement. The Board will adopt the amendments as proposed.

**D. Subrule 19.10(4)**

The Board proposed to amend this subrule to remove the reference to the "1993-1994 PGA year," to remove the threshold of one-half of 1 percent for filing an



Rb factor and to make the language consistent with the changes proposed for the definition of the Rb factor. MidAmerican suggested that the Board add language to the Rb rule allowing the collection periods for collection of Rb factors to extend beyond the PGA year.

The Board will not adopt the revision proposed by MidAmerican. Any over- or under-collection not recovered through use of the Rb factor during the current PGA year will be recovered as part of the reconciliation. The Board will adopt the amendments to this subrule as proposed.

**E. Subrule 19.10(6)**

No comments were received concerning the amendments proposed to this subrule. The amendments will be adopted as proposed.

**F. Subrule 19.10(7)**

The Board proposed to amend this subrule to remove references to take-or-pay costs that are no longer applicable, to add a reference to hedging tools so it is clear the costs of these tools can be collected through the PGA, and to clarify when any reconciliation adjustment will be flowed through to customers.

MidAmerican suggested the Board amend this subrule to allow utilities to collect interest from customers on any under-collections. MidAmerican asserted that not allowing interest on under-collections is inequitable. MidAmerican also suggested that a utility only be required to file a sample month of PGA invoices rather than a full 12 months.

Atmos and Aquila supported MidAmerican's position that utilities be allowed to collect interest on under-collections.

The Board will revise this subrule consistent with the discussion concerning supporting data for hedging tool costs in section III above. The Board will not adopt the revisions to allow interest on under-collections. The collection of interest on over-recoveries provides utilities with an incentive to reduce over collections and return the money to customers. There is no corresponding incentive for allowing interest on under-collections since the utility may file with the next periodic filing or during the annual reconciliation. The Board will not adopt the proposal to allow a utility to file a sample month rather than data for the full 12-month period. The Board is providing utilities with additional flexibility and so a full review of 12-month data continues to be appropriate.

**G. Subrule 19.10(8)**

The Board proposed amendments to this subrule to clarify that a utility should file a refund plan with the Board whenever it receives a refund related to gas costs. The Board also raised the dollar amount of the refund that would require a utility to make the refund by check, rather than bill credit, from \$5 to \$10. The Board clarified that the utility could refund lesser amounts through the periodic filings or retain the refund for distribution later.

MidAmerican suggested that the minimum amount for refund checks should be increased to \$15. MidAmerican indicated that the \$5 amount has been in place for over 20 years and doubling is still not high enough. Atmos stated that it did not support the proposed amendment. Atmos stated that supplier refunds should simply be included as a negative recoverable gas cost. Atmos pointed out that Illinois and Missouri treat refunds this way, based upon the reasoning that the economic impact

that supplier refunds once had no longer exists. Aquila stated that administrative costs of preparing small refunds outweigh the preference to distribute those refunds to customers as quickly as possible. Atmos suggested increasing the threshold for an average refund to \$15, with all smaller refunds included as a negative gas cost in the annual reconciliation.

The Board will adopt the amendments as proposed. No quantification of the costs of sending customers a check was provided and the Board considers doubling the amount from \$5 to \$10 to be a significant move. The Board also considers it appropriate for natural gas utilities to file a refund plan rather than flow refunds through the PGA without review.

**H. Subrule 19.16(1)**

The Board proposed amendments to the reserve margin rules to allow utilities to purchase capacity based upon forecast peaks of usage rather than above the utility's highest seven-year historical peak as now specified in the rules. A utility may recover the costs of the excess capacity purchased up to a certain limit from customers. The reserve margin provisions are intended to provide a safe harbor for prudent capacity planning. The Board removed the historic peaks to allow a utility to maintain a reserve margin based upon forecasted peaks.

The utilities supported the use of forecasted peaks for determining reserve margins. The amendments will be adopted as proposed.

**I. Subrule 19.16(2)**

The Board proposed amendments to this subrule to include definitions updated to be consistent with how gas is purchased in the current market and consistent with the use of forecasted peaks rather than historical peaks.

**1. Paragraph 19.16(2)"a"**

The Board proposed amendments to this paragraph to update the language and removed the exclusion for liquefied natural gas (LNG) from the calculation of "contract services." MidAmerican requested clarification of the definition for contract services concerning the inclusion of LNG in the definition. MidAmerican stated that if liquefied natural gas (LNG) is included in the definition of "contract services" a utility should be allowed to use the "planned" annual output capacity for each LNG facility. MidAmerican provided revised language including this provision.

The Board will adopt MidAmerican's language. MidAmerican indicated at the oral presentation that the maximum output of LNG may not always be available. The revision adopted is as follows:

a. ~~Gas available to meet demand~~ Contract services. ~~All~~ The amount of firm gas delivery capacity or delivery services contracted for use by a utility to satisfy its maximum daily system demand requirement, including the planned delivery capacity of the utility owned liquefied natural gas facilities, but excluding the delivery capacity of ~~liquefied natural gas and~~ propane storage facilities, shall be considered as ~~gas~~ available to meet demand contract services.

**2. Paragraph 19.16(2)"b"**

No comments were received concerning the proposed new definition of "Maximum daily system demand requirements." The definition will be adopted as proposed.

**3. Paragraph 19.16(2)"c"**

This paragraph provides a definition of "design day" to be used in the utilities' forecasts. MidAmerican suggested that the Board strike part of the third sentence in the definition of design day. MidAmerican interpreted this sentence to require a utility to estimate historic peak day usage by customer classification or grouping.

MidAmerican argues that this type of estimate is not needed or relevant.

MidAmerican states that most customers are monthly metered rather than daily metered and daily usage information by customer classification or grouping is not available. At the oral presentation, MidAmerican explained its method of calculating an effective degree-day (EDD) and that this is done on a system basis, not by customer classification or grouping.

MidAmerican would revise the sentence and make the remaining language part of the preceding sentence read as follows: "The design day forecast shall be the combined estimated gas requirements of all firm sales customers calculated by totaling the gas requirements of each customer classification or grouping. ~~The estimated gas requirements for each customer classification or grouping shall be determined based upon an evaluation of historic usage levels of customers in each customer classification or grouping, adjusted for reasonably anticipated colder-than-~~

normal weather conditions and any other clearly identifiable factors that may contribute to the demand for gas by firm customers."

The Board added the language in the third sentence to give utilities an indication of the type of support the utility should consider in estimating the total gas requirements for the system. Utilities should base the estimated gas requirements for "all firm sales customers" on an evaluation of historic usage levels for each customer classification or grouping. This does not require daily usage information by class but does require the utility to evaluate historic usage data when developing a design day for its forecast.

The Board has no base period data to evaluate the forecasts to be provided by the utilities under the new reserve margin provisions. An evaluation of historic levels by the utilities will give the Board an objective basis for evaluating the forecasts. If this requirement creates an undo hardship or proves to be unnecessary, the Board will consider removing the requirement in some future rule making proceeding. The proposed definition will be adopted as proposed.

**J. Subrule 19.16(3)**

The Board proposed to reduce the reserve margin for maximum daily system demand requirements of less than 25,000 Dth per day from 9 percent to 6 percent. No comments were received concerning this subrule. The Board will make revisions to the proposed amendments consistent with those discussed below in section X.

**K. Subrule 19.16(4)**

The Board proposed to reduce the reserve margin for maximum daily system demand requirements of more than 25,000 Dth per day from 5 percent to 3 percent.

The utilities objected to this proposed amendment. Even though the forecast of market demand is believed to be a better indicator of future delivery and supply requirements, the utilities argue that the reserve margin should be maintained at its current level to protect customers. MidAmerican states that while a forecast may give a more accurate representation of expected system requirements than historical data, the uncertainty of weather and other variables do not necessarily make it more precise.

The Board will not adopt the proposed amendment to reduce the reserve margin. Once the Board has developed a base of data for considering forecasted demand, it may reconsider whether the current reserve margin levels are appropriate.

**L. Subrule 19.16(5)**

IPL stated that it did not object to the continuation of the rebuttable presumption approach provided in this subrule. IPL suggests that a utility cannot be denied recovery of the costs to provide a reserve margin above the limit in subrules 19.16(3) and (4) without the opportunity for a hearing to rebut the presumption. IPL recommends the proposed subrule be revised to replace the reference to "periodic review" with provision for an evidentiary hearing.

IPL is correct that the current subrule does not provide for a hearing limited specifically to review the denial of recovery of costs above the reserve margin provided in the rules. The "periodic review" provided for in the subrule may involve more than just the rebuttable presumption. There is no question that a utility denied costs that exceed the reserve margin would have an opportunity to present evidence supporting the reasonableness of the costs at an evidentiary hearing.

The other proposed amendments will be adopted and the Board will make the following revisions to this subrule.

**19.16(5)** Rebuttable presumption. All ~~gas available to meet demand~~ contract services in excess of an amount needed to meet the ~~base period~~ maximum daily system demand requirement plus the reserve is presumed to be unjust and unreasonable unless a factual showing to the contrary is made during the periodic review of gas proceeding or in a proceeding specifically addressing the issue with an opportunity for an evidentiary hearing. All ~~gas available to meet demand~~ contract services less than an amount of ~~base period~~ the maximum daily system demand requirement plus the reserve is presumed to be just and reasonable unless a factual showing to the contrary can be made during the periodic review of gas proceeding or in a proceeding specifically addressing the issue with an opportunity for an evidentiary hearing.

## CONCLUSION

The Board will adopt the amendments to its purchased gas adjustment and reserve margin rules as discussed in this order. Interested parties should obtain a copy of the adopted amendments as published in the Iowa Administrative Bulletin since editorial changes may have been made by the Code Editor before publishing. Utilities should conform the annual filing due August 1, 2004, to the amendments adopted in this rule making.



**ORDERING CLAUSES**

**IT IS THEREFORE ORDERED:**

1. A rule making identified as Docket No. RMU-04-3 is adopted.
2. The Executive Secretary is directed to submit for publication in the Iowa Administrative Bulletin an "Adopted and Filed" notice in the form attached to and incorporated by reference in this order.

**UTILITIES BOARD**

/s/ Diane Munns

/s/ Mark O. Lambert

**ATTEST:**

/s/ Judi K. Cooper  
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 16<sup>th</sup> day of July, 2004.

## UTILITIES DIVISION [199]

### Adopted and Filed

Pursuant to Iowa Code sections 476.1, 476.2, 476.4, 476.6 and 17A.4), the Utilities Board (Board) gives notice that on July 16, 2004, the Board issued an order in Docket No. RMU-04-3, In re: Revisions to Purchased Gas Adjustment and Reserve Margin Rules [199 IAC 19.10(476) and 19.16(476)], "Order Adopting Amendments." The Board is amending its rules on purchased gas adjustments and reserve margins to update the provisions and allow the natural gas utilities more flexibility in filing for recovery of natural gas costs.

Notice of Intended Action was published in IAB Vol. XXVI, No. 25 (6/9/04) p. 1951, as ARC 3401B. Comments concerning the proposed amendments were filed by the Consumer Advocate Division of the Department of Justice, Interstate Power and Light Company, Aquila, Inc., d/b/a Aquila Networks, Atmos Energy Corporation, and MidAmerican Energy Company. An oral presentation was held on July 6, 2004. The Board's order adopting the amendments can be found on the Board's Web site, [www.state.ia.us/iub](http://www.state.ia.us/iub), or in hard copy in the Board's Record Center, 350 Maple Street, Des Moines, Iowa 50319-0069.

These amendments are intended to implement Iowa Code sections 476.1, 476.2, 476.4, 476.6, and 17A.4.

These amendments will become effective September 8, 2004.

The following amendments are adopted.

Item 1. Amend subrule 19.10(1) as follows:

**19.10(1)** Purchased gas adjustment clause. Purchased gas adjustment shall be computed separately for each customer classification or grouping previously approved

by the board. Purchased gas adjustments shall use the same unit of measure as the utility's tariffed rates. Purchased gas adjustments shall be calculated using factors filed in annual or periodic filings according to the following formula:

$$PGA = \frac{(CxRc) + (DxRd) + \cancel{(NxRn)} + (ZxRz)}{S} + Rb + E - \cancel{K}$$

PGA is the purchased gas adjustment per unit.

S is the anticipated yearly gas commodity sales volume for each customer classification or grouping.

C is the volume of applicable commodity purchased or transported for each customer classification or grouping required to meet sales, S, plus the expected lost and unaccounted for volumes.

Rc is the weighted average of applicable commodity prices or rates, including appropriate hedging tools costs, to be in effect September 1 corresponding to purchases C.

D is the total volume of applicable ~~gas or transportation demand~~ entitlement reservation purchases required to meet sales, S, for each customer classification or grouping.

Rd is the weighted average of applicable ~~demand rates~~ entitlement reservation charges to be in effect September 1 corresponding to purchases D.

~~N is the total quantity of applicable annual entitlement to meet sales, S, for each customer classification or grouping.~~

~~Rn is the weighted average of applicable entitlement rates to be in effect September 1 corresponding to annual entitlement quantity N.~~

Z is the total quantity of applicable storage service purchases required to meet sales, S, for each customer classification or grouping.

Rz is the weighted average of applicable storage service rates to be in effect September 1 corresponding to purchases Z.

Rb is the adjusted amount necessary to obtain the anticipated balance for the remaining PGA year calculated by taking the anticipated PGA balance divided by the forecasted volumes, including storage, ~~for the months of October through August one or more months of the remaining~~ PGA year.

E is the per unit overcollection or undercollection adjustment as calculated under subrule 19.10(7).

~~K is the base cost of gas as set forth in the utility's tariff.~~

The components of the formula shall be determined as follows for each customer classification or grouping:

a. The actual sales volumes S for the prior 12-month period ending ~~June 30~~ May 31, with the necessary degree-day adjustments, and further adjustments approved by the board.

Unless a utility receives prior board approval to use another methodology, a utility shall use the same weather normalization methodology used in prior approved PGA and rate case.

b. The annual expected lost and unaccounted for factor shall be calculated by determining the actual difference between sales and ~~purchases~~ purchase volumes for the 12 months ending May 31 or from the current annual IG-1 filing ~~prior PGA year~~, but in no case will this factor be less than 0.

c. The purchases C, D, ~~N~~ and Z will be necessary to meet requirements as determined in 19.10(1).

d. No change.

Item 2. Amend subrule **19.10(2)** as follows:

**19.10(2)** Annual purchased gas adjustment filing. Each rate-regulated utility shall file on or before August 1 of each year, for the board's approval, a purchased gas adjustment for the 12-month period beginning September 1 of that year.

The annual filing shall restate each factor of the formula stated in subrule 19.10(1).

The annual filing shall be based on customer classifications and groupings previously approved by the board unless new classifications or groupings are proposed.

The annual filing shall include all worksheets and detailed supporting data used to determine the purchased gas adjustment volumes and factors ~~including sales and purchase data from bills, invoices, internal reports and supplier and customer contracts.~~ The utility shall provide an explanation of the calculations of each factor. Information already on file with the board may be incorporated by reference in the filing.

Item 3. Amend subrule **19.10(3)** as follows:

**19.10(3)** Periodic changes to purchased gas adjustment clause. Periodic purchased gas adjustment filings shall be based on the purchased gas adjustment customer classifications and groupings previously approved by the board. Changes in the customer classification and grouping on file are not automatic and require prior approval by the board.

Periodic filings shall include all worksheets and detailed supporting data used to determine the amount of the adjustment.

Changes in factors S or C may not be made in periodic purchased gas filings ~~except to recognize changes between pipeline and nonpipeline purchases.~~ A change in factors D, ~~N,~~ or Z may be made in periodic filings and will be deemed approved if it conforms to the annual purchased gas filing or if it conforms to the principles set out in ~~19.10(5) or~~ 19.10(6).

The utility shall implement automatically all purchased gas adjustment changes which result from changes in Rc, Rd, ~~Rn,~~ or Rz ~~equal to or greater than .5 cents per ccf or therm immediately~~ with concurrent board notification with adequate information to calculate and support the change. ~~Purchased gas adjustment changes of less than .5 cents per ccf or therm shall be required with concurrent board notification if the last purchased gas adjustment change occurred 30 days or more prior to the change.~~ The purchased gas adjustment shall be calculated separately for each customer classification or grouping.

Unless otherwise ordered by the board, a rate-regulated utility's purchased gas adjustment rate factors shall be adjusted as purchased gas costs change and shall recover from customers only the actual costs of purchased gas and other currently incurred charges associated with the delivery, inventory, or reservation of natural gas. Such periodic changes shall become effective with usage on or after the date of change.

~~If a supplier's entitlement charge is zero, the same percentage of current demand charges shall be allocated to each customer class or grouping as the average demand charges allocated during the last 12-month period for which entitlement rates were not zero. "Current demand charges" means the amount  $(D \times Rd)$  used in computing the formula set out in 19.10(1).~~

Item 4. Amend subrule **19.10(4)** as follows:

**19.10(4)** *Factor Rb.* ~~Starting with the 1993-1994 PGA year, each company~~ Each utility has the option of filing an Rb calculation with its October-January filings but ~~will be required to~~ shall file an Rb calculation with its February filing and subsequent monthly filings in the PGA year. ~~If anticipated revenues exceed or fall short of anticipated costs by more than one-half of 1 percent, the PGA adjustment necessary to obtain the anticipated balance shall constitute the amount to be reflected as factor Rb in the PGA calculation. The adjustment shall be for services rendered in the remaining months of the same PGA year unless a subsequent determination under this paragraph requires a change.~~ If the anticipated PGA balance represents costs in excess of revenues, factor Rb shall be assigned a positive value; if the anticipated balance represents revenues in excess of costs, factor Rb shall be assigned a negative value.

Item 5. Amend subrule **19.10(6)** as follows:

**19.10(6)** Allocations of changes in contract demand pipeline transportation capacity obligations. Any change in contractual ~~demand~~ pipeline transportation capacity obligations to pipeline or other gas suppliers to transportation or storage service providers serving Iowa must be reported to the board within 30 days of receipt. The change must be applied on a pro-rata basis to all customer classifications or groupings, unless another method has been approved by the board. Where a change has been granted as a result of the utility's request based on the needs of specified customers, that change may be allocated to specified customers. Where the board has approved anticipated sales levels for one or more customer

classifications or groupings, those levels may limit the pro-rata reduction for those classifications or groupings.

Item 6. Amend subrule **19.10(7)** as follows:

(7) Reconciliation of underbillings and overbillings. The utility shall file with the board on or before October 1 of each year a purchased gas adjustment reconciliation for the 12-month period which began on September 1 of the previous year. This reconciliation shall be the actual net invoiced costs of purchased gas and appropriate financial hedging tools costs less the actual revenue billed through its purchased gas adjustment clause net of the prior year's reconciliation dollars for each customer classification or grouping. Actual net costs for purchased gas shall be the applicable invoice costs from all appropriate sources associated with the time period of usage.

Negative differences in the reconciliation shall be considered overbilling by the utility and positive differences shall be considered underbilling. This reconciliation shall be filed with all worksheets and detailed supporting data for each particular purchased gas adjustment clause. Penalty purchases shall only be includable where the utility clearly demonstrates a net savings.

~~The take-or-pay reconciliation shall be the actual net invoiced costs of take-or-pay less the actual revenue billed through its take-or-pay factors for each customer class or grouping. Actual net costs for take-or-pay shall be the applicable invoice costs from all appropriate sources associated with the time period of usage.~~

a. The annual reconciliation filing shall include the following information concerning the hedging tools used by the utility:

(1) The type and volume of physical gas being hedged.



(2) The reason the hedge was undertaken (e.g., to hedge storage gas, a floating price contract).

(3) A detailed explanation of the hedging strategy (e.g., costless collar, straddled costless collar, purchasing or selling options).

(4) The date the futures contract or option was purchased or the date the swap was entered into.

(5) The spot price of gas at the time the hedge was made, including an explanation of how the spot price was determined including the index or indices used.

(6) The amount of all commissions paid and to whom those payments were made.

(7) All administrative costs associated with the hedge.

(8) The name(s) of all marketers used and the amount of money paid to each marketer.

(9) The amount of savings or costs resulting from the hedge.

(10) The amount of money tied up in margin accounts for futures trading and the cost of that money.

(11) The premium paid for each option.

(12) The strike price of each option.

(13) The contracting costs for each swap transaction.

(14) The name of the fixed-price payer in a swap transaction.

(15) A statement as to how the hedge is consistent with the LDC's natural gas procurement plan.

(16) An explanation as to why the LDC believes the hedge was in the best interest of general system customers.

(17) All invoices, workpapers, and internal reports associated with the hedge.

ab. Any underbilling determined from the reconciliation shall be collected through ten-month adjustments to the appropriate purchased gas adjustment. The underbilling generated from each purchased gas adjustment clause shall be divided by the anticipated sales volumes for the prospective ten-month period beginning November 1 (based upon the sales determination in subrule 19.10(1)).

The quotient, determined on the same basis as the utility's tariff rates, shall be added to the purchased gas adjustment for the prospective ten-month period beginning November 1.

~~Any underbillings determined from the take-or-pay reconciliation shall be collected through ten-month adjustments to appropriate take-or-pay adjustment. The underbilling shall be divided by the anticipated sales volumes or transport volumes for the prospective ten-month period beginning November 1 (based upon the volumes determined in subrule 19.10(5)).~~

~~The quotient, determined on the same basis as the utility's tariff rates, shall be added to the take-or-pay factor for the prospective ten-month period beginning November 1.~~

bc. Any overbilling determined from the reconciliation shall be refunded to the customer classification or PGA grouping from which it was generated. The overbilling shall be divided by the annual cost of purchased gas subject to recovery for the 12-month period which began the prior September 1 for each purchased gas adjustment clause and applied as follows:

(1) If the net overbilling from the purchased gas adjustment reconciliation exceeds 3 percent of the annual cost of purchased gas subject to recovery for a specific customer classification or PGA grouping, the utility shall refund the overbilling by bill credit or check ~~for the time period beginning~~ starting on the first day of billing in the November 4 billing cycle of the current year ~~to the date of refunding~~. The minimum amount to be refunded by check shall be \$10. Interest shall be calculated on amounts exceeding 3 percent from the PGA year midpoint to the date of refunding. The interest rate shall be the dealer commercial paper rate (90-day, high-grade unsecured notes) quoted in the "Money Rates" section of the Wall Street Journal on the last working day of August of the current year.

(2) If the net overbilling from the purchased gas adjustment reconciliation does not exceed 3 percent of the annual cost of purchased gas subject to recovery for a specific customer classification or PGA grouping, the utility may refund the overbilling by bill credit or check ~~for the time period beginning~~ starting on the first day of billing in the November 4 billing cycle of the current year ~~to the date of refunding~~, or the utility may refund the overbilling through ten-month adjustments to the particular purchased gas adjustment from which they were generated. The minimum amount to be refunded by check shall be \$10. This adjustment shall be determined by dividing the overcollection by the anticipated sales volume for the prospective ten-month period beginning November 1 as determined in subrule 19.10(1) for the applicable purchased gas adjustment clause. The quotient, determined on the same basis as the utility's tariff rates, shall be a reduction to that particular purchased gas adjustment for the prospective ten-month period beginning November 1.

~~c. Any overbilling determined from the reconciliation of a TPA shall be refunded to the customer classification or TPA grouping from which it was generated. The 3 percent refund rule described in subparagraphs 19.10(7)"b"(1) and (2) shall also apply to the take-or-pay reconciliation. The overbilling shall be divided by the anticipated sales volumes or transport volumes for the prospective ten-month period beginning November 1 (based upon the volumes determined in subrule 19.10(5)). The quotient, determined on the same basis as the utility's tariff rates, shall be a reduction to that particular take-or-pay adjustment for the prospective ten-month period beginning November 1.~~

~~d. If the 3 percent refund rule described in subparagraph 19.10(7)"b"(1) requires an immediate refund for either the PGA or the TPA, the reconciliation results of the two adjustments may be netted. The volumes involved with the PGA and TPA must be the same. The 3 percent refund rule described in subparagraphs 19.10(7)"b"(1) and (2) shall also apply to the netted PGA and TPA reconciliation results. The quotient, determined on the same basis as the utility's tariff rates, shall be a reduction to that particular netted purchased gas adjustment and take-or-pay adjustment for the prospective ten-month period beginning November 1.~~

ed. No change.

Item 7. Amend subrule **19.10(8)** as follows:

**19.10(8)** Refunds from gas suppliers related to gas costs charged through the PGA. The utility shall file a refund plan with the board within 30 days of the receipt of any refund related to gas costs charged through the PGA.

a. The utility shall refund to customers by bill credit or check an amount equal to any refund received from a supplier, plus accrued interest, if the refund exceeds \$5-

10 per average residential customer under the applicable ~~PGA clause~~ customer classification or grouping. The utility may refund lesser amounts through the applicable customer classification or grouping or retain undistributed refund amounts in special refund retention accounts for each customer classification or grouping under the applicable PGA clause until such time as additional refund obligations or interest cause the average residential customer refund to exceed ~~\$5~~10. Any obligations remaining in the retention accounts on September 1 shall become a part of the annual PGA reconciliation.

~~b. Within 30 days of receipt of a refund from a supplier, the~~ The utility shall file with the ~~board~~ refund plan the following information:

- (1) A statement of reason for the refund.
- (2) The amount of the refund with support for the amount.
- (3) The balance of the appropriate refund retention accounts.
- (4) The amount due under each ~~purchased gas adjustment clause~~ customer classification or grouping.

~~b. If the supplier refund will result in a refund distribution, the utility shall also file within 30 days:~~

- ~~(15)~~ The intended period of the refund distribution.
- ~~(26)~~ The estimated interest accrued for each ~~supplier~~ refund through the proposed refund period, with complete interest calculations and supporting data as determined in paragraph 19.10(8)"e." "d."
- ~~(37)~~ The total amount to be refunded, the amount to be refunded per customer classification or ~~PGA~~ grouping, and the refund per ccf or therm.

~~c. Within 30 days of receipt of a refund from a supplier which will result in a refund retention, the utility shall also file with the board for its approval a refund retention report which shall include the following information:~~

(~~48~~) The estimated interest accrued for each refund received and for each amount in the refund retention accounts through the date of the filing with the complete interest calculation and support as determined in paragraph 19.10(8)"e."  
"d."

(~~29~~) The total amount to be retained, the amount to be retained per customer ~~class~~ classification or ~~PGA~~ grouping, and the level per ccf or therm.

(~~310~~) The calculations demonstrating that the retained balance is less than ~~\$5-10~~ per average residential customer with supporting schedules for all factors used.

~~d.~~ The refund to each customer shall be determined by dividing the amount in the appropriate refund retention account, including interest, by the total ccf or therm of system gas consumed by affected customers during the period for which the refundable amounts are applicable and multiplying the quotient by the ccf or therms of system supply gas actually consumed by the customer during the appropriate period. The utility may use the last available 12-month period if the use of the actual period generating the refund is impractical. The utility shall file complete support documentation for all figures used.

~~e.~~ The interest rate on refunds distributed under this subrule, compounded annually, shall be the dealer commercial paper rate (90-day, high-grade unsecured notes) quoted in the "Money Rates" section of the Wall Street Journal on the day the refund obligation vests. Interest shall accrue from the date the rate-regulated utility

receives the refund or billing from the supplier or the midpoint of the first month of overcollection to the date the refund is distributed to customers.

~~fe.~~ The rate-regulated utility shall make a reasonable effort to forward refunds, by check, to eligible recipients who are no longer customers.

~~gf.~~ The minimum amount to be refunded by check shall be \$45.

Item 8. Amend rule **199—19.16(476)** as follows:

**199—19.16(476) Reserve margin**

**19.16(1) *Applicability.*** All rate-regulated gas utility companies may maintain a reserve of ~~natural gas~~ contract services in excess of their ~~historic peaks~~ maximum daily system demand requirement and recover the cost of the reserve from their customers through the purchased gas adjustment.

**19.16(2) *Definitions.***

a. ~~Gas available to meet demand~~ Contract services. All The amount of firm gas delivery capacity or delivery services contracted for use by a utility to satisfy its maximum daily system demand requirement, including the planned delivery capacity of the utility owned liquefied natural gas facilities, but excluding the delivery capacity of liquefied natural gas and propane storage facilities, shall be considered as gas ~~available to meet demand~~ contract services.

~~b. *Contract demand.* The amount of firm gas a utility is entitled to take on a daily basis, pursuant to contract.~~

~~cb. *Base period Maximum daily system demand requirements.* The maximum peak of the previous seven heating seasons (12-month period ending June 30) shall form the base period demand to establish a utility's maximum peak demand~~ daily gas

demand requirement that the utility forecasts to occur on behalf of its system firm sales customers under peak (design day) weather conditions.

c. *Design day.* The maximum heating season forecast level of all firm sales customers' gas requirements during a 24-hour period beginning at 9 a.m. The design day forecast shall be the combined estimated gas requirements of all firm sales customers calculated by totaling the gas requirements of each customer classification or grouping. The estimated gas requirements for each customer classification or grouping shall be determined based upon an evaluation of historic usage levels of customers in each customer classification or grouping, adjusted for reasonably anticipated colder-than-normal weather conditions and any other clearly identifiable factors that may contribute to the demand for gas by firm customers. The design day calculation shall be submitted for approval by the board with the annual PGA filing required by subrule 19.10(2).

**19.16(3)** ~~*Contract*~~ *Maximum daily system demand levels requirements* of less than 25,000 ~~*Mcf Dth*~~ per day. A reserve margin of 9 percent or less in excess of the ~~base period~~ maximum daily system demand requirements will be presumed reasonable.

**19.16(4)** ~~*Contract*~~ *Maximum daily system demand levels requirements* of more than 25,000 ~~*Mcf Dth*~~ per day. A reserve margin of 5 percent or less in excess of the ~~base period~~ maximum daily system demand requirements will be presumed reasonable.

**19.16(5)** *Rebuttable presumption.* All ~~gas available to meet demand~~ contract services in excess of an amount needed to meet the ~~base period~~ maximum daily system demand requirement plus the reserve is presumed to be unjust and



unreasonable unless a factual showing to the contrary is made during the periodic review of gas proceeding or in a proceeding specifically addressing the issue with an opportunity for an evidentiary hearing. All ~~gas available to meet demand~~ contract services less than an amount of ~~base period~~ the maximum daily system demand requirement plus the reserve is presumed to be just and reasonable unless a factual showing to the contrary can be made during the periodic review of gas proceeding or in a proceeding specifically addressing the issue with an opportunity for an evidentiary hearing.

**19.16(6)** No change.

July 16, 2004

/s/ Diane Munns

Diane Munns  
Chairman